

Message Text

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ACTION EB-07

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SUBJECT: REPORTS OF FORMATION OF JAPANESE FERROUS SCRAP IMPORT CARTEL
ARE PREMATURE

REF: STATE 119044

SUMMARY. JAPANESE FERROUS SCRAP IMPORT CARTEL HAS NOT BEEN RECONSTITUTED ALTHOUGH IDEA IS UNDER CONSIDERATION BY MAJOR STEEL COMPANIES. PROSPECTS ARE UNCERTAIN. MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY HAS NOT YET PREPARED ESTIMATES OF 1976 FERROUS SCRAP IMPORTS FROM U.S., BUT ONE OF THREE LARGEST TRADING FIRMS IN THIS FIELD ESTIMATES ONE TO 1.5 MILLION MT FOR ENTIRE CY 76, AND REMAINING TWO FIRMS BOTH ESTIMATE 1.7 TO 1.8 MILLION MT FOR ENTIRE CY. END SUMMARY.

1. FOLLOWING INFO IS SUBMITTED IN RESPONSE TO REFTTEL:

2. EXISTING JAPANESE FERROUS SCRAP IMPORT CARTELS EXPIRED SEPT 30, 1974. ON SEPT 5, 1974, 94 JAPANESE STEEL COMPANIES AND 23 JAPANESE TRADING FIRMS ESTABLISHED AN IMPORTERS ASSN --NOT NECESSARILY A CARTEL -- CALLED THE JAPAN IRON AND STEEL SCRAP IMPORTERS ASSN (JISSIA). IN RESPONSE TO USG RESTRAINTS THEN IN EXISTANCE ON EXPORTS OF

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FERROUS SCRAP AND RESULTANT PERCEIVED NEED FOR JAPANESE

IMPORT QUOTA SYSTEM, THE 94 STEEL COMPANY MEMBERS OF JISSIA WERE ALLOWED BY MITI (IN ACCORDANCE WITH ARTICLE 19-4-2 OF EXPORT AND IMPORT TRADING LAW -- SEE BELOW, PARA 6) TO IMPLEMENT A CARTEL ACTION FOR ONE YEAR, FROM OCT 9, 1974 TO OCT 8, 1975, TO FACILITATE THE ORDERLY PURCHASES OF U.S. FERROUS SCRAP. DURING THE PERIOD OF THIS CARTEL ALL OFFERS OF U.S. FERROUS SCRAP SHIPPERS TO THE 94 COMPANIES, WHICH ACCOUNTED FOR ALMOST 100 PERCENT OF U.S. FERROUS SCRAP EXPORTS TO JAPAN -- WHETHER MADE DIRECTLY TO THE COMPANIES OR THROUGH TRADING FIRMS -- WERE EXAMINED BY THE CARTEL MEMBERS' JOINT IMPORT COMMITTEE WITH RESPECT TO VOLUME, PRICE, GRADE, AND SHIPPING SCHEDULE TO DETERMINE WHETHER THE OFFER WAS APPROPRIATE AND CONDUCIVE TO ORDERLY PURCHASES. DUE TO PREVAILING RECESSIONARY CONDITIONS DURING EXISTANCE OF CARTEL, ITS ACTUAL EFFECTS ON PRICE, QUANTITY, OR OTHER ASPECTS OF FERROUS SCRAP IMPORT TRANSACTIONS WERE MINIMAL: A FEW OFFERS FROM THE U.S. SIDE WERE QTE ADJUSTED UNQTE. IN LIGHT OF TERMINATION OF THE USG EXPORT RESTRAINTS AT THE END OF 1974 AND THE CONTINUING RECESSION IN JAPAN AT THE EXPIRATION OF THE CARTEL'S AUTHORIZED LIFE (OCT 8, 1975), MITI REJECTED THE JAPANESE STEEL INDUSTRY'S REQUEST FOR A ONE YEAR EXTENSION OF THE CARTEL. JISSIA CONTINUES TO EXIST AS AN IMPORTERS ASSN.

3. SINCE AROUND MARCH 1976, IN ANTICIPATION OF INCREASING U.S. EXPORTS OF FERROUS SCRAP TO THIRD COUNTRIES (E.G., KOREA), AND TO PREVENT SPECULATIVE PURCHASES BY JAPANESE TRADING FIRMS AS STEEL DEMAND RECOVERS, MAJOR JAPANESE STEEL COMPANIES HAVE BEGUN TO CONSIDER REVIVAL OF THE IMPORT CARTEL FOR FERROUS SCRAP. THIS CONSIDERATION IS STILL IN A PRELIMINARY STAGE. TOKYO SEITETSU, THE LARGEST SINGLE JAPANESE END USER OF U.S. FERROUS SCRAP, IMPORTING SOME 600,000 -700,000 MT PER YEAR, FEELS THAT THERE IS NO RPT NO NEED TO REVIVE THE CARTEL TO INSURE ORDERLY PURCHASES. MITI IS AWARE OF INTEREST WITHIN THE JAPANESE STEEL INDUSTRY IN RE-ESTABLISHING THE CARTEL BUT FOR ITS PART HAS NOT YET BEGUN TO CONSIDER WHETHER SUCH AN ACTION LIMITED OFFICIAL USE

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WOULD BE APPROPRIATE.

4. JAPANESE STEEL COMPANIES IMPORT U.S. FERROUS SCRAP ON A SPOT BASIS. THE ONLY EXCEPTION OF WHICH EMBASSY IS AWARE IS TOKYO SEITETSU, SOME 70 PERCENT OF WHOSE IMPORT VOLUME IS BASED ON LONG TERM CONTRACTS WHICH TYPICALLY CALL FOR THE SHIPMENT OF A CERTAIN NUMBER OF VESSELS PER YEAR.

5. JAPANESE CUSTOMS BUREAU STATISTICS INDICATE IMPORTS OF U.S. FERROUS SCRAP WERE 1.45 MILLION MT IN THE FIRST HALF OF 1975 AND 2.37 MILLION MT FOR THE ENTIRE YEAR. (LATTER FIGURE IS CONSISTENT WITH THAT GIVEN REFTEL PARA 3.) MITI HAS NOT YET PREPARED ESTIMATES OF 1976 U.S. FERROUS SCRAP IMPORTS, BUT ONE OF THE THREE LARGEST JAPANESE TRADING FIRMS IN THE FIELD ESTIMATES 1976 IMPORTS AT ONE TO 1.5 MILLION MT AND THE OTHER TWO LARGEST FIRMS BOTH ESTIMATE 1.7 TO 1.8 MILLION MT. TOKYO SEITETSU ESTIMATES 1976 IMPORTS AS SOMEWHAT LARGER THAN ONE MILLION MT. ACTUAL IMPORTS DURING THE FIRST QUARTER OF 1976 WERE 215,311 MT, DOWN 70 PERCENT FROM 713,917 MT DURING THE COMPARABLE 1975 PERIOD. THESE DATA DO NOT APPEAR TO SUPPORT FIRST HALF 1976 ESTIMATE OF TWO MILLION MT GIVEN REFTEL PARA 3. AT PRESENT, MAJOR JAPANESE STEEL COMPANIES HAVE NO PLANS TO PURCHASE U.S. FERROUS SCRAP IN 1976. AS A RESULT, JAPANESE PURCHASERS IN 1976 ARE LIKELY TO BE MEDIUM AND SMALL STEEL COMPANIES SUCH AS TOKYO SEITETSU WHICH HAVE NO BLAST FURNACES AND WHICH MANUFACTURE STEEL USING ELECTRIC FURNACES. THIS PROSPECT COULD CHANGE IF DEMAND FOR STEEL SHOULD INCREASE RAPIDLY.

6. ARTICLE 19-4-2 OF JAPAN'S EXPORT AND IMPORT TRADING LAW PROVIDES THAT THE MITI MINISTER MAY PERMIT AN IMPORT ASSN TO STIPULATE TERMS TO BE OBSERVED BY MEMBERS OF THE ASSN REGARDING PRICE, QUANTITY, QUALITY, OR OTHER MATTERS RELATED TO AN IMPORT TRANSACTION IN CERTAIN CASES PROVIDED BY THE LAW, I.E., WHEN NECESSARY FOR ORDERLY IMPORTS. THE TERMS THEMSELVES MUST THEN BE APPROVED BY THE MITI MINISTER, THUS PROVIDING A TWO STAGE LIMITED OFFICIAL USE

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APPROVAL PROCESS BY MITI OF THE CARTEL AND ITS OPERATION.
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